



SEKHUKHUNE

District Municipality

Sekhukhune District Municipality
Annual Financial Statements
for the year ended 30 June 2011

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Government Works
Executive Mayor	Cllr Magabe MD
Speaker	Cllr Mathebe NC
Mayoral Councillors	Cllr Mahlo SA Cllr Nchabeleng TL Cllr Seloane LM Cllr Mokganyetji MJ Cllr Mokoka KSD Cllr Matlala RM Cllr Mamahlako M Cllr Kgoloko M
Ordinary Councillors	Cllr Mathebe NC Cllr Magabe MD Cllr Matlala RM Cllr Seloane LM Cllr Nchabeleng TL Cllr Mahlo SA Cllr Thamaga MM Cllr Lekola MF Cllr Mokganyetji MJ Cllr Mathale MJ Cllr Kgoloko NL Cllr Sihlangu TL Cllr Mamahlako PM Cllr Mafefe OH Cllr Makuwa TH Cllr Mokwana LW Cllr Tala DL Cllr Makitla RJ Cllr Thobejane MD
Grading of Local Authority	High capacity municipality
Accounting Officer	Ntshudisane MJ
Acting Chief Finance Officer (CFO)	Maepa MW
Acting Municipal Manager	Ntshudisane MJ
Registered Office	No 3 Wes Street Groblersdal 0470
Business Address	No 3 Wes Street Groblersdal 0470

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General Information

Postal Address	Private Bag X8611 Groblersdal 0470
Bankers	ABSA Bank Limited
Auditors	Auditor-General
Attorneys	Katedi Mokgoatjane Attorneys Makhubela Attorneys Mateme Makgahlele Attorney Mphela & Associates Rachoene & Associates
Development Entity	Sekhukhune Development Agency (Pty) Ltd
Audit Committee Members	Mr Moloto Mokwele (Chairperson) Ms B Mahlobogoane Mr Mbulelo Mahonga Mrs Dimakatso Manzini Mr Mike Mohohlo

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FAPC	Feasibility Study for Food and Agricultural Processing Centre

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, the external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6. I certify that the salaries, allowances and benefits of Councillors, loans made to councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 19 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 6 to 57, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2011 and were signed on its behalf by:



Mrs M.J. Ntshudisane

30 September 2011

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Name of member	Number of meetings attended
Mr Moloto Mokwele (Chairperson)	4
Ms B Mahlobogoane	4
Mr Mbulelo Mahonga	4
Mrs DG Manzini	2
Mr Mike Mohohlo	3

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal control was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal control and/or deviations from there from were reported by the internal auditors and the Auditor-General South Africa. In certain instances, the matters reported previously have not been fully and satisfactorily addressed.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the auditors;
- Reviewed the Auditor-General of South Africa's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the entities compliance with legal and regulatory provisions;
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

We have met with the Auditor-General of South Africa to ensure that there are no unresolved issues.



Chairperson of the Audit Committee

Date: _____

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 261,582,480 (2010: surplus R 103,604,620).

2. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated surplus of R 2,434,352,677 and that the municipality's total assets exceed its liabilities by R 2,434,352,677.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The acting Accounting Officer, Mrs. MJ Ntshudisane, is related to a supplier of office space rented by the municipality. Refer to the note on related party transactions for more information.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The acting accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mrs MJ Ntshudisane

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect at management meetings and monitor the municipality's compliance with the code on a three monthly basis.

Councillors

The Councillors:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
 - non-executive councillors; and
 - executive councillors.

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Accounting Officer's Report

Speaker and Executive Mayor

The roles of the speaker and the executive mayor are separated, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the accounting officer and the directors, are determined by the council.

Salaries, allowances and benefits of Councillors, loans made to councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Council meetings

Council has met on 13 separate occasions during the financial year. Council meetings are scheduled to take place at least four times per annum.

Council meetings are open to the public.

Audit committee

Mr. Moloto Mokwele was the chairperson of the audit committee. The committee met 4 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

Internal audit

The municipality employed a team of three internal auditors and one intern for the year under review.

The head of the department is Mr N Marobane.

Risk Management Unit

The municipality employed a risk management unit for the year under review. The director of the unit is Mr M. Mohlamonyane

8. Interest in controlled entities

<u>Name of controlled entity</u>	<u>Country of incorporation</u>	<u>Net income (loss) after tax</u>
Sekhukhune Development Agency (Pty) Ltd	RSA	111,061

Details of the municipality's investment in controlled entities are set out in note 5.

9. Bankers

The municipality banks primarily with ABSA Bank Limited.

10. Auditors

The Auditor-General will continue in office for the next financial period.

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Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	10	2,630,840	3,956,596
Other financial assets	6	5,000,000	-
Operating lease asset	7	-	53,937
VAT receivable	11	93,186,398	117,862,101
Prepayments	9	-	55,234,754
Consumer debtors	12	27,806,879	16,470,546
Cash and cash equivalents	13	19,412,989	52,966,045
		148,037,106	246,543,979
Non-Current Assets			
Property, plant and equipment	4	3,306,095,679	3,007,852,236
Non-Current Assets		3,306,095,679	3,007,852,236
Current Assets		148,037,106	246,543,979
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		3,454,132,785	3,254,396,215
Liabilities			
Current Liabilities			
Other financial liabilities	14	609,084	257,522
Finance lease obligation	15	636,856	863,052
Operating lease liability	7	12,762	-
Trade and other payables from exchange transactions	19	969,033,365	934,012,844
Unspent conditional grants and receipts	16	3,510,656	1,657,062
Provisions	17	17,243,181	13,954,122
Grants received in advance	18	-	74,995,000
		991,045,904	1,025,739,602
Non-Current Liabilities			
Other financial liabilities	14	5,732,507	6,341,590
Finance lease obligation	15	1,025,924	1,662,780
Operating lease liability	7	524,329	395,917
Provisions	17	21,451,444	18,346,829
		28,734,204	26,747,116
Non-Current Liabilities		28,734,204	26,747,116
Current Liabilities		991,045,904	1,025,739,602
Liabilities of disposal groups		-	-
Total Liabilities		1,019,780,108	1,052,486,718
Assets		3,454,132,785	3,254,396,215
Liabilities		(1,019,780,108)	(1,052,486,718)
Net Assets		2,434,352,677	2,201,909,497
Net Assets			
Accumulated surplus		2,434,352,677	2,201,909,482

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Statement of Financial Performance

Figures in Rand		2011	2010
Revenue			
Service charges	21	35,543,976	41,073,417
Government grants & subsidies	22	693,633,276	566,485,566
Sundry income	20	84,595	-
Other income		913,581	1,191,247
Interest received	29	10,195,812	18,799,792
Total Revenue		740,371,240	627,550,022
Expenditure			
Employee cost	26	(174,031,148)	(146,120,154)
Remuneration of councillors	27	(6,884,994)	(6,833,101)
Depreciation and amortisation	30	(69,263,223)	(48,811,231)
Finance costs	31	(1,177,010)	(1,027,811)
Debt impairment	28	(11,353,857)	(3,568,607)
Water related expenses		(35,550,330)	(25,249,579)
Repairs and maintenance		(7,666,525)	(12,355,465)
Bulk purchases	34	(34,427,469)	(58,659,489)
General Expenses	24	(138,701,396)	(221,944,115)
Total Expenditure		(479,055,952)	(524,569,552)
Gain on disposal of assets and liabilities		267,192	624,150
Revenue		740,371,240	627,550,022
Expenditure		(479,055,952)	(524,569,552)
Other		267,192	624,150
Surplus for the year		261,582,480	103,604,620

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total Assets
Opening balance as previously reported	2,368,285,666	2,368,285,666
Adjustments		
Prior year adjustments	(269,980,804)	(269,980,804)
Balance at 01 July 2009 as restated	2,098,304,862	2,098,304,862
Changes in net assets		
Surplus for the year	103,604,620	103,604,620
Total changes	103,604,620	103,604,620
Opening balance as previously reported	2,349,967,556	2,349,967,556
Adjustments		
Prior year adjustments	(151,057,558)	(151,057,558)
Balance at 01 July 2010 as restated	2,198,909,998	2,198,909,998
Changes in net assets		
Current year adjustments	(26,139,801)	(26,139,801)
Net income (losses) recognised directly in net assets	(26,139,801)	(26,139,801)
Surplus for the year	261,582,480	261,582,480
Total recognised income and expenses for the year	235,442,679	235,442,679
Total changes	235,442,679	235,442,679
Balance at 30 June 2011	2,434,352,677	2,434,352,677

Note(s)

Sekhukhune District Municipality

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Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Equitable share		274,263,867	219,939,923
Sale of goods and services		(38,470,172)	(32,940,732)
Grants		419,369,409	346,545,642
Interest income		10,195,812	18,799,792
Other receipts		913,581	1,191,247
		666,272,497	553,535,872
Payments			
Employee costs		(176,834,468)	(152,953,245)
Suppliers		(72,413,755)	(380,289,350)
Finance costs		(857,066)	(1,027,811)
		(250,105,289)	(534,270,406)
Total receipts		666,272,497	553,535,872
Total payments		(250,105,289)	(534,270,406)
Net cash flows from operating activities	35	416,167,208	19,265,466
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(369,280,698)	(399,334,753)
Proceeds from sale of property, plant and equipment	4	995,951	927,183
Proceeds from sale of financial assets		(5,000,000)	-
Net cash flows from investing activities		(373,284,747)	(398,407,570)
Cash flows from financing activities			
Repayment of other financial liabilities		(257,521)	(92,901)
Grant received in advance		(74,995,000)	74,995,000
Finance lease payments		(1,182,996)	(1,968,618)
Net cash flows from financing activities		(76,435,517)	72,933,481
Net increase/(decrease) in cash and cash equivalents		(33,553,056)	(306,208,623)
Cash and cash equivalents at the beginning of the year		52,966,045	359,174,668
Cash and cash equivalents at the end of the year	13	19,412,989	52,966,045

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Contingent provisions on business combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on acquisition of businesses.

Effective interest rate

The municipality used the government bonds rate to discount future cash flows.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the fair value of all its investment properties. A service provider was acquired to assist with the process.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Accounting Policies

1.3 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	15-30 years
Furniture and fixtures	3-10 years
Motor vehicles	5-7 years
Office equipment	3-10 years
Infrastructure	
• Roads, pavements, bridges and storm water	1-100 years
• Water reservoirs and reticulation	5-80 years
• Street names, signs and parking meters	7-20 years
• Water meters	4-15 years
• Car parks, bus terminals and taxi ranks	20 years
• Electricity reticulation	15-30 years
• Electricity meters	10 years

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

Community

• Parks and gardens	10-30 years
• Sport fields	20-30 years
• Community halls	30 years
• Libraries	30 years
• Recreation facilities	20-30 years
• Clinics	30 years
• Fire services	30 years
• Cemeteries	30 years
Security measures	3-10 years
Specialised vehicles	15-20 years

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

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1.5 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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1.6 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

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1.6 Financial instruments (continued)

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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1.7 Leases (continued)

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction / (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

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The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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1.13 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:

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1.13 Provisions and contingencies (continued)

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.14 Revenue from exchange transactions (continued)

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Presentation of currency

These annual financial statements are presented in South African Rand.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- First time implementation of GRAP 23.

First time implementation of GRAP 23 - Revenue from Non-Exchange Transactions

During the year, the municipality changed its accounting policy with respect to the treatment of Revenue from Non-Exchange Transactions by adopting the GRAP 23 Standard earlier than the effective date of 1 April 2012 as announced in Notice 33991 of the Government Gazette.

The change in accounting policy is made in accordance with its transitional provisions in Directive 3, Paragraph 84-85. In terms of this Directive all changes resulting from the application of the Standard of GRAP on Revenue from Non-Exchange Transactions shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. When an entity initially adopts a Standard of GRAP, the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors requires an entity to apply the requirements of the Standard being adopted retrospectively.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

3.2 Standards and Interpretations early adopted

The municipality has not chosen to adopt any standards and interpretations early.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has early adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 103: Heritage Assets

Grp 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grp 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grp 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Grp 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;

Notes to the Annual Financial Statements

3. **New standards and interpretations (continued)**
- Disclosure;
 - Accounting for the constructive obligation;
 - Statement of financial position;
 - Asset recognition ceiling;
 - Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
 - Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity Combinations and curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	4,260,625	-	4,260,625	4,260,625	-	4,260,625
Buildings	16,481,628	(1,528,037)	14,953,591	16,481,628	(990,186)	15,491,442
Leasehold property	4,293,083	(2,836,496)	1,456,587	3,443,555	(1,186,556)	2,256,999
Furniture and fixtures	8,525,010	(2,471,321)	6,053,689	8,599,063	(1,079,875)	7,519,188
Motor vehicles	10,592,621	(4,168,005)	6,424,616	10,603,071	(1,488,613)	9,114,458
Office equipment	8,686,932	(2,406,633)	6,280,299	9,086,417	(1,357,957)	7,728,460
Community	43,089,098	(9,372,059)	33,717,039	30,494,292	(4,777,999)	25,716,293
Roads and Stormwater	1,988,307,920	(1,138,120,151)	850,187,769	1,973,207,766	(1,113,417,411)	859,790,355
Capital work in progress	1,435,340,479	-	1,435,340,479	1,095,211,585	-	1,095,211,585
Wastewater network	127,049,631	(7,415,534)	119,634,097	127,049,631	(3,715,848)	123,333,783
Water network	1,258,120,059	(432,936,829)	825,183,230	1,258,120,061	(404,381,142)	853,738,919
New assets found	4,132,648	(1,528,990)	2,603,658	4,773,623	(1,083,494)	3,690,129
Total	4,908,879,734	(1,602,784,055)	3,306,095,679	4,541,331,317	(1,533,479,081)	3,007,852,236

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	4,260,625	-	-	-	-	4,260,625
Buildings	15,491,442	-	-	-	(537,851)	14,953,591
Leasehold property	2,256,999	-	-	-	(800,413)	1,456,586
Furniture and fixtures	7,519,188	285,767	(359,820)	-	(1,391,446)	6,053,689
Motor vehicles	9,114,458	-	(156,334)	-	(2,533,507)	6,424,617
Office equipment	7,728,460	1,171,076	(212,605)	-	(2,406,633)	6,280,298
Community	25,716,293	-	-	12,594,806	(4,594,060)	33,717,039
Roads and Stormwater	859,790,355	-	-	15,100,154	(24,702,740)	850,187,769
Capital work in progress	1,095,211,585	367,823,855	-	(27,694,961)	-	1,435,340,479
Wastewater network	123,333,783	-	-	-	(3,699,686)	119,634,097
Water network	853,738,919	-	-	-	(28,555,688)	825,183,231
New assets found	3,690,129	-	-	-	(1,086,470)	2,603,659
	3,007,852,236	369,280,698	(728,759)	(1)	(70,308,494)	3,306,095,680

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Depreciation	Total
Land	660,625	3,600,000	-	-	4,260,625
Buildings	13,212,535	2,774,000	-	(495,093)	15,491,442
Leasehold property	3,080,834	298,921	-	(1,122,756)	2,256,999
Furniture and fixtures	3,770,554	4,863,030	(34,521)	(1,079,875)	7,519,188
Motor vehicles	3,511,905	7,310,406	(219,240)	(1,488,613)	9,114,458
Office equipment	3,027,569	6,108,120	(49,272)	(1,357,957)	7,728,460
Community	30,494,292	-	-	(4,777,999)	25,716,293
Roads and Stormwater	856,553,651	46,396,958	-	(43,160,254)	859,790,355
Capital work in progress	772,001,890	323,209,695	-	-	1,095,211,585
Wastewater network	127,049,631	-	-	(3,715,848)	123,333,783
Water network	883,794,984	-	-	(30,056,065)	853,738,919
New assets found	-	4,773,623	-	(1,083,494)	3,690,129
	2,697,158,470	399,334,753	(303,033)	(88,337,954)	3,007,852,236

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
4. Property, plant and equipment (continued)		
Assets subject to finance lease (Net carrying amount)		
Leased Assets	1,456,587	2,256,999

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Investments in controlled entities

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Sekhukhune Development Agency (Pty) Ltd	Sekhukhune District Municipality	100.00 %	- %	-	-

The carrying amounts of controlled entities are shown net of impairment losses.

6. Other financial assets

Loans and receivables

Loan to Tubatse Local Municipality

The loan is interest free and unsecured. The loan was repaid after year end and before the issue of the annual financial statements.

5,000,000 -

Current assets

Loans and receivables

5,000,000 -

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

7. Operating lease accrual

Current assets

Non-current liabilities

Current liabilities

-	53,937
(524,329)	(395,917)
(12,762)	-
(537,091)	(341,980)

Lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense in the statement of financial performance on a straight-line basis. The difference between the actual payments and the straightline payments are reflected as operating lease accruals. The comparative figure is restated as it was the municipality's first year of applying the straight line policy.

8. Employee benefit obligations

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to 887 employees.

The municipality is under no obligation to cover any unfunded benefits.

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

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	2011	2010
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9. Prepayments

Shortly before the end of the 2009-2010 financial year an amount of R65 000 000 was received as a Municipal Infrastructure Grant in respect of the 2010-2011 financial year.

These funds have been utilised before the commencement of the 2010-2011 financial year on the projects earmarked for it. Because of the fact that this was a conditional grant and as a result of the accounting treatment of the grant revenue, the expenses incurred are disclosed on the face of the statement of financial position as "Prepayments" in the comparative column in compliance with the pairing principle. The matching principle is a culmination of accrual accounting and the revenue recognition principle. According to the principle, expenses are recognized when obligations are (1) incurred (usually when goods are transferred or services rendered, e.g. sold), and (2) offset against recognized revenues, which were generated from those expenses (related on the cause-and-effect basis), no matter when cash is paid out.

The R55 234 754 disclosed on the face of the statement of financial position are therefore capitalised to the relevant projects in the 2010-2011 financial year when the grant revenue was recognised.

No expenses were paired and recognised as prepaid for the R9 995 000 that was received in advance in respect of the DWA - O&M grant because this grant is not conditional.

10. Inventories

Consumable stores		
Water	2,469,867	3,956,596
	160,973	-
	2,630,840	3,956,596
Carrying value of inventories carried at fair value less costs to sell	2,009,280	3,956,596
Inventories recognised as an expense during the year	2,334,189	-
11. VAT receivable		
VAT	93,186,398	117,862,101

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Consumer debtors		
• Sekhukhune District Municipality		
Gross balances		
Consumer debtors from local municipalities	21,039,060	22,143,218
Water and other services	24,611,187	816,839
	45,650,247	22,960,057
Less: Provision for debt impairment		
Water and other services	(1,000)	-
Consumer debtors from local municipalities	(17,842,369)	(6,488,511)
	(17,843,369)	(6,488,511)
Net balance		
Consumer debtors from local municipalities	21,039,060	22,143,218
Water and other services	6,767,819	(5,672,672)
	27,806,879	16,470,546
Water and other services		
Current (0 -30 days)	3,694,911	58,231
31 - 60 days	16,148,238	104,550
61 - 90 days	4,768,038	654,058
	24,611,187	816,839
• Ephraim Mogale Local Municipality		
Gross balances		
Sewer	1,465,662	1,173,899
Water	7,143,675	5,993,560
	8,609,337	7,167,459
Less: Provision for debt impairment		
Sewer	(1,276,697)	(526,740)
Water	(6,682,938)	(1,173,571)
	(7,959,635)	(1,700,311)
Net balance		
Sewer	188,965	647,159
Water	460,737	4,819,989
	649,702	5,467,148
Sewer		
Current (0-30 days)	110,174	70,557
31-60 days	11,919	28,765
61-90 days	6,767	21,817
91 days +	60,105	526,020
	188,965	647,159

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
12. Consumer debtors (continued)		
Water		
Current (0-30 days)		
31-60 days	225,713	337,851
61-90 days	9,182	231,471
91 days+	8,035	114,299
	217,807	4,136,368
	460,737	4,819,989
Total		
Current (0-30 days)		
31-60 days	335,888	408,407
61-90 days	21,101	260,236
91 days+	14,802	136,116
	277,912	4,662,389
	649,703	5,467,148
• Elias Motsoaledi Local Municipality		
Gross balances		
Sewer		
Water	1,185,080	739,975
	3,769,379	2,369,776
	4,954,459	3,109,751
Less provision for debt impairment		
Sewer		
Water	(777,667)	(207,079)
	(2,306,877)	(663,173)
	(3,084,544)	(870,252)
Net Balances		
Sewer		
Water	407,413	532,896
	1,462,502	1,706,603
	1,869,915	2,239,499
Sewer		
Current (0-30 days)		
31-60 days	123,564	80,971
61-90 days	50,880	38,341
91 days+	27,784	18,500
	205,185	395,084
	407,413	532,896
Water		
Current (0-30 days)		
31-60 days	532,388	458,183
61-90 days	249,381	185,580
91 days+	126,599	89,120
	554,135	973,719
	1,462,503	1,706,602
Total		
Current (0-30 days)		
31-60 days	655,952	539,154
61-90 days	300,261	223,921
91 days+	154,384	107,620
	759,319	1,368,803
	1,869,916	2,239,498

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Consumer debtors (continued)		
•Tubatse Local Municipality		
Gross balance		
Sewer	1,256,579	1,385,851
Water Connection	7,286,728	7,091,166
Basic Water	3,100	-
	8,546,407	8,477,017
Less impairment for bad debt		
Sewer	(974,448)	(394,148)
Water Connection	(5,823,742)	(2,016,789)
	(6,798,190)	(2,410,937)
Net balance		
Sewer	282,131	991,703
Water Connection	1,462,986	5,074,377
Basic Water	3,100	-
	1,748,217	6,066,080
Sewer		
Current (0-30 days)	39,691	117,132
31-60 days	21,220	80,354
61- 90 days	15,389	66,896
91 days+	205,831	727,320
	282,131	991,702
Basic Water		
Current (0-30 days)	-	-
31-60 days	-	-
61-90 days	-	-
91 days+	3,100	-
	3,100	-
Water Connection		
Current (0-30 days)	125,650	494,418
31-60 days	80,340	414,822
61-90 days	77,134	332,567
91 days+	1,179,862	3,832,571
	1,462,986	5,074,378
Total		
Current (0-30 days)	165,342	611,549
31-60 days	101,560	495,176
61-90 days	92,523	399,463
91 days+	1,388,793	4,559,891
	1,748,218	6,066,079

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

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13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	19,397,753	13,548,000
Short-term deposits	15,236	39,418,045
	19,412,989	52,966,045

The municipality had the following bank accounts

Description and account number	Bank statement balances		Cash book balances	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
ABSA BANK - Short Term Investment - 20 6957 5541	1,069	31,808,219	1,069	31,808,219
FNB BANK - Short Term Investment - 712 4038 3704	-	7,497,923	-	7,497,923
ABSA BANK - Primary Account - 4053013501	30,087,976	35,898,751	19,397,753	13,548,000
ABSA BANK - Secondary Account - 4053013666	-	-	-	53,104
STANDARD BANK - Short Term Investment - 338 805 435	-	5,995	-	5,995
STANLIB BANK - Short Term Investment - 755 445 00	-	51,784	-	51,784
STANDARD BANK - Short Term Investment - 334 783 232	14,167	-	14,167	-
Total	30,103,212	75,262,672	19,412,989	52,965,025

14. Other financial liabilities

Held at amortised cost

Loan from Anglo Platinum - Short Term Portion	609,084	257,522
The loan is interest free, unsecured and repayable in bi-annual instalments of R542 690. The loan is amortised using the effective interest rate method.		
Loan from Anglo Platinum - Long Term Portion	5,732,507	6,341,590
The loan is interest free, unsecured and repayable in bi-annual instalments of R542 690. The loan is amortised using the effective interest rate method.		
	6,341,591	6,599,112
	6,341,591	6,599,112

Non-current liabilities

At amortised cost	5,732,507	6,341,590
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Current liabilities

At amortised cost	609,084	257,522
	5,732,507	6,341,590
	609,084	257,522
	6,341,591	6,599,112

Sekhukhune District Municipality

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	2011	2010
15. Finance lease obligation		
Minimum lease payments due		
- within one year	853,172	1,182,453
- in second to fifth year inclusive	1,171,068	2,024,240
Less: future finance charges	2,024,240	3,206,693
	(361,460)	(680,861)
Present value of minimum lease payments	1,662,780	2,525,832
Present value of minimum lease payments due		
- within one year	636,854	863,051
- in second to fifth year inclusive	1,025,926	1,662,781
	1,662,780	2,525,832
Non-current liabilities	1,025,924	1,662,780
Current liabilities	636,856	863,052
	1,662,780	2,525,832

The average lease term was 4-6 years and the average effective borrowing rate was linked to the prime lending rate.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Consolidated Bulk Public Works Grant	1,578,700	1,578,700
Municipal Finance Management Grant	1,931,956	1,150,812
Agriculture Feasibility Study - LED	-	(1,072,450)
	3,510,656	1,657,062

Sekhukhune District Municipality

Annual Financial Statements for the year ended 30 June 2011

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17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised or reversed during the year	Total
Environmental rehabilitation	18,346,829	349,464	-	18,696,293
Provision for bonus	2,025,718	4,270,626	(2,025,718)	4,270,626
Provision for leave pay	11,928,404	12,972,555	(11,928,404)	12,972,555
Provision for long service awards	-	2,755,151	-	2,755,151
	32,300,951	20,347,796	(13,954,122)	38,694,625

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	5,331,975	13,014,854	-	18,346,829
Provision for bonus	582,418	2,025,718	(582,418)	2,025,718
Provision for leave pay	6,567,884	11,928,404	(6,567,884)	11,928,404
	12,482,277	26,968,976	(7,150,302)	32,300,951
Non-current liabilities			21,451,444	18,346,829
Current liabilities			17,243,181	13,954,122
			38,694,625	32,300,951

18. Grants received in advance

Shortly before the end of the 2009-2010 financial year an amount of R65 000 000 was received as a Municipal Infrastructure Grant in respect of the 2010-2011 financial year, and an amount of R9 995 000 was received as a DWA - O&M grant in respect of the 2010-2011 financial year.

19. Trade and other payables from exchange transactions

Trade payables	33,250,665	50,082,911
Local Municipalities Services	843,704,418	823,897,583
Employee Cost	3,345,529	603,834
Retention	88,732,753	59,428,516
	969,033,365	934,012,844

Sekhukhune District Municipality

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	2011	2010
20. Revenue		
Service charges	35,543,976	41,073,417
Government grants & subsidies	693,633,276	566,485,566
Sundry income	84,595	-
	729,261,847	607,558,983

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	35,543,976	41,073,417
Sundry income	84,595	-
	35,628,571	41,073,417

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue		
Grants received	693,633,276	566,485,566

21. Service charges

Sale of water	34,766,262	31,863,953
Sewerage and sanitation charges	777,714	9,209,464
	35,543,976	41,073,417

22. Government grants and subsidies

Equitable share	274,263,867	219,939,923
Municipal systems improvement grant	-	338,434
Umsobomvu youth fund	-	287,943
Water infrastructure grant	-	39,730,484
Municipal infrastructure grant	286,195,000	244,521,000
Transport grant	-	66,705
Agri Processing LED grant	-	1,830,318
Municipal finance grant	218,857	975,453
EPWP grant	2,755,900	-
DWA - O&M	60,054,278	42,704,097
DWA Refurbishment	-	16,091,209
ACIP - Department of Human Settlements	9,045,739	-
ACIP - Department of Water Affairs	5,000,000	-
RBIG	56,099,635	-
	693,633,276	566,485,566

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Consolidated Bulk Public Works Program

Balance unspent at beginning of year	1,578,700	-
Current-year receipts	-	1,578,700
	1,578,700	1,578,700

Sekhukhune District Municipality

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22. Government grants and subsidies (continued)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	338,434
Conditions met - transferred to revenue	-	(338,434)
	-	-

Municipal Infrastructure Grant

Current-year receipts	286,195,000	244,521,000
Conditions met - transferred to revenue	(286,195,000)	(244,521,000)
	-	-

All conditions to the Municipal Infrastructure Grant were met during the year.

IAS 20 requires that revenue related to the acquisition or construction of an asset is recognised either as a reduction of the asset acquired/constructed (resulting in a reduced depreciation charge) or deferred revenue being recognised as a liability on initial recognition. Subsequently, the liability would be reduced and revenue recognised based on the depreciation of the asset. Under GRAP 23, revenue is recognised unless an obligation exists to use transferred resources in a certain way or return the resources received to the transferor. (i.e. the transfer of resources is subject to a "condition"). If an entity is only required to use the resources received in a certain way with no corresponding requirement to return those resources to the transferor, then no obligation exists and revenue is recognised.

In prior years a portion of the Municipal Infrastructure Grant relating to the construction of assets that was supposed to have been recognised as a deferred revenue liability in terms of IAS20, was incorrectly retained as unspent. The revenue relating to the expenditure was not recognised in income before in terms of IAS20, and is now recognised retrospectively in terms of GRAP 23 since the conditions have been met.

A total of R65 000 000 received in respect of the 2010-2011 financial year, was received before year end and was spent in advance on projects budgeted for the 201-2011 financial year. The R65 000 000 is now restated in the comparative figures as revenue received in advance in terms of GRAP23.103.

Municipal Finance Management Grant

Balance unspent at beginning of year	1,150,812	626,265
Current-year receipts	1,000,000	1,500,000
Conditions met - transferred to revenue	(218,856)	(975,453)
	1,931,956	1,150,812

Agriculture Feasibility Study - LED

Balance unspent at beginning of year	(1,072,450)	172,125
Current-year receipts	1,072,450	585,744
Conditions met - transferred to revenue	-	(1,830,319)
	-	(1,072,450)

Consolidation of Municipal Transformation Program

Balance unspent at beginning of year	-	4,702
Restatement of 2009 opening balance	-	(4,702)
	-	-

Transport Plan Grant

Sekhukhune District Municipality

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22. Government grants and subsidies (continued)

Balance unspent at beginning of year	-	66,705
Conditions met - transferred to revenue	-	(66,705)
	-	-

Water Infrastructure and O&M Grants - DWA

Balance unspent at beginning of year	-	38,833,538
Current-year receipts	50,059,278	102,245,484
Conditions met - transferred to revenue	(50,059,278)	(108,520,790)
Retrospective application of GRAP 23 through Accumulated Surplus	-	(32,558,232)
	-	-

IAS 20 requires that revenue related to the acquisition or construction of an asset is recognised either as a reduction of the asset acquired/constructed (resulting in a reduced depreciation charge) or deferred revenue being recognised as a liability on initial recognition. Subsequently, the liability would be reduced and revenue recognised based on the depreciation of the asset. Under GRAP 23, revenue is recognised unless an obligation exists to use transferred resources in a certain way or return the resources received to the transferor. (i.e. the transfer of resources is subject to a "condition"). If an entity is only required to use the resources received in a certain way with no corresponding requirement to return those resources to the transferor, then no obligation exists and revenue is recognised.

In prior years a portion of the Water Infrastructure Grant relating to the construction of assets that was supposed to have been recognised as a deferred revenue liability in terms of IAS20, was incorrectly retained as unspent. The revenue relating to the expenditure was not recognised in income before in terms of IAS20, and is now recognised retrospectively in terms of GRAP 23 since the conditions have been met.

Planning Infrastructure Grant

Balance unspent at beginning of year	-	3,903,319
Retrospective application of GRAP 23 through Accumulated Surplus	-	(3,903,319)
	-	-

IAS 20 requires that revenue related to the acquisition or construction of an asset is recognised either as a reduction of the asset acquired/constructed (resulting in a reduced depreciation charge) or deferred revenue being recognised as a liability on initial recognition. Subsequently, the liability would be reduced and revenue recognised based on the depreciation of the asset. Under GRAP 23, revenue is recognised unless an obligation exists to use transferred resources in a certain way or return the resources received to the transferor. (i.e. the transfer of resources is subject to a "condition"). If an entity is only required to use the resources received in a certain way with no corresponding requirement to return those resources to the transferor, then no obligation exists and revenue is recognised.

In prior years a portion of the Planning Infrastructure Grant relating to the construction of assets that was supposed to have been recognised as a deferred revenue liability in terms of IAS20, was incorrectly retained as unspent. The revenue relating to the expenditure was not recognised in income before in terms of IAS20, and is now recognised retrospectively in terms of GRAP 23 since the conditions have been met.

The related expenditure was initially recorded in capital work in progress and remains unchanged in the comparative year.

Umsombomvu Youth Fund

Balance unspent at beginning of year	-	287,943
Conditions met - transferred to revenue	-	(287,943)
	-	-

Changes in level of government grants

Sekhukhune District Municipality

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22. Government grants and subsidies (continued)		
Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
23. Other revenue		
Other income	913,581	1,191,247
24. General expenses		
Advertising	665,649	1,130,506
Assessment rates & municipal charges	470,025	874,082
Assets expensed	-	1,746,120
Auditors remuneration	1,930,561	2,342,051
Bank charges	122,218	119,210
Chemicals	4,591,806	2,616,704
Cleaning	-	1,452,139
Commission paid	9,841,541	8,354,352
Community services	7,675,897	14,316,831
Computer expenses	399,465	581,953
Conferences and seminars	-	739,375
Consulting and professional fees	12,748,764	7,106,501
Water distribution	28,913,859	103,065,743
Consumables	518,526	3,864,978
Donations	-	590,403
Entertainment	477,786	877,365
Environment cleaning	218,857	17,617,996
Restoration of landfill site provision	349,464	-
Fines and penalties	956,334	126,574
Fleet	6,258,310	5,780,788
Flowers	-	84,782
Gifts	51,200	176,871
Tools	-	2,410,884
IT expenses	1,097,029	435,403
Insurance	1,373,714	1,448,565
Lease rentals on operating lease	5,526,073	4,534,959
Magazines, books and periodicals	59,693	50,848
Marketing	1,746,181	3,155,252
Motor vehicle expenses	10,045,963	10,321,463
Free basic water and electricity	597,825	9,956,182
Other expenses	8,937,413	-
Placement fees	25,949	-
Postage and courier	-	33,229
Printing and stationery	124,248	1,311,108
Project maintenance costs	15,196,999	606,174
Promotions	-	307,923
License fees	1,038,956	636,856
Secretarial fees	-	171,454
Security (Guarding of municipal property)	12,760,098	8,373,196
Grant to Sekhukhune Development Agency	1,144,345	184,098
Subscriptions and membership fees	1,476,383	897,228
Telephone and fax	1,247,072	2,547,974
Tourism development	-	548,152
Training	113,193	447,843
	138,701,396	221,944,115

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25. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges

Premises

- Contractual amounts

3,844,711

3,229,254

Equipment

- Contractual amounts

1,681,362

1,305,705

5,526,073

4,534,959

Gain on sale of property, plant and equipment

267,192

624,150

Depreciation on property, plant and equipment

69,263,223

48,811,231

Employee costs

180,916,142

152,953,255

26. Employee related costs

Basic

104,935,934

91,625,647

Bonus

10,737,674

-

Medical aid - company contributions

4,592,540

3,444,308

UIF

787,863

364,343

WCA

-

572,173

SDL

1,052,433

1,155,517

Other payroll levies

322,455

399,967

Leave pay provision charge

1,044,151

1,555,394

Travel, motor car, accommodation, subsistence and other allowances

9,882,893

2,983,516

Overtime payments

588,819

5,351,926

Long-service awards

792,611

-

Transport allowance (bus coupons)

11,812,656

6,506,049

Car allowance

-

7,169,379

Housing benefits and allowances

2,264,850

2,190,375

Post retirement contributions

934,728

372,538

Leave bought out

-

5,322

Uniform allowance

123,520

552,502

Pension Fund

14,685,498

13,316,835

Telephone allowance

-

29,630

164,558,625

137,595,421

Remuneration of municipal manager

Annual Remuneration including Benefits and Allowances

767,598

955,011

Car Allowance

72,000

72,000

Contributions to UIF, Medical and Pension Funds

39,657

35,513

Severance Package

1,146,028

-

Group life

4,788

4,017

Skill levy

9,582

9,169

2,039,653

1,075,710

Remuneration of chief finance officer

Annual Remuneration including benefits and allowances

857,817

746,619

Car Allowance

72,000

72,000

Contributions to UIF, Medical and Pension Funds

18,088

19,886

Group life

3,464

2,652

Skills Levy

9,026

7,485

960,395

848,642

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26. Employee related costs (continued)		
Remuneration of Director Administration		
Annual Remuneration including benefits and allowances	770,717	637,009
Car Allowance	96,000	96,000
Contributions to UIF, Medical and Pension Funds	35,416	43,242
Grouplife	4,805	4,413
Skills levy	7,143	6,202
	914,081	786,866
Remuneration of Acting Director: Water Services		
Annual Remuneration	-	579,459
Car Allowance	-	180,027
Contributions to UIF, Medical and Pension Funds	-	13,380
Grouplife	-	3,411
Skills Levy	-	6,268
	-	782,545
Remuneration of Director: Human Resources		
Annual Remuneration including benefits and allowances	745,085	726,073
Car Allowance	96,000	96,000
Contributions to UIF, Medical and Pension Funds	20,452	20,413
Grouplife	5,974	5,431
Skills levy	7,635	7,512
	875,146	855,429
Remuneration of Director: Community Services		
Annual Remuneration including benefits and allowances	784,112	666,401
Car allowance	111,480	111,480
Contributions to UIF, Medical and Pension Funds	1,537	1,461
Grouplife	6,367	5,431
Skills levy	8,001	7,512
	911,497	792,285
Remuneration of Director: Technical Services		
Annual Remuneration including benefits and allowances	419,874	513,489
Car Allowance	100,100	105,820
Contributions to UIF, Medical and Pension Funds	45,424	1,214
Grouplife	-	3,682
Skills levy	4,095	5,791
	569,493	629,996
Remuneration of Director: Planning and Economic Development		
Annual Remuneration including benefits and allowances	349,865	598,545
Car Allowance	38,450	92,280
Contributions to UIF, Medical and Pension Funds	21,635	43,461
Grouplife	955	2,283
Skills levy	3,597	6,290
	414,502	742,859

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	2011	2010
26. Employee related costs (continued)		
Remuneration of Director: Executive Mayors' Office		
Annual Remuneration including benefits and allowances	746,736	395,082
Car Allowance	84,000	56,000
Performance Bonuses	-	83,989
Contributions to UIF, Medical and Pension Funds	63,124	46,297
Group life	11,412	5,013
Skills levy	7,395	-
	912,667	586,381
Remuneration of Director: Strategic Management		
Annual Remuneration including benefits and allowances	799,361	671,938
Car Allowance	5,000	60,000
Contributions to UIF, Medical and Pension Funds	54,919	75,584
Group life	1,994	2,659
Skills Levy	7,023	6,022
	868,297	816,203
Remuneration of Chief Operations Officer		
Annual Remuneration including benefits and allowances	798,287	462,100
Car Allowance	81,000	62,250
Contributions to UIF, Medical and Pension Funds	115,628	78,600
Group life	4,485	311
Skills levy	7,392	4,556
	1,006,792	607,817
Total remuneration to employees		
Employee cost	174,031,148	146,120,154
All directors, non executive managers and other officials as per council cellphone policy are entitled to use of cellphone at council cost		
27. Remuneration of councillors		
Executive Mayor	605,167	581,311
Mayoral Committee Members	2,539,576	2,267,937
Speaker	549,376	522,433
Councillors	3,190,875	3,461,420
	6,884,994	6,833,101

In-kind benefits

The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has three full-time chauffeurs.

All councillors are entitled to the use of a cellphone at the cost of the council.

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28. Debt impairment		
Debt impairment	11,353,857	3,568,607
29. Investment revenue		
Interest revenue		
Bank and investments	10,195,812	18,799,792
30. Depreciation and amortisation		
Property, plant and equipment	69,263,223	48,811,231
31. Finance costs		
Finance leases	319,944	-
Interest on Anglo Platinum loan	827,859	1,027,811
Other interest paid	29,207	-
	1,177,010	1,027,811
32. Auditors' remuneration		
Fees	1,930,561	2,232,275
Expenses	-	109,776
	1,930,561	2,342,051
33. Contracted services		
Other Contractors	35,550,330	-
34. Bulk purchases		
Electricity	10,388,648	8,276,423
Water	23,307,196	49,753,847
Bulk paper	731,625	629,219
	34,427,469	58,659,489

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35. Cash generated from/(used in) operations		
Surplus / (deficit)	261,582,480	103,604,620
Adjustments for:		
Depreciation and amortisation	69,263,223	48,811,231
Proceeds from disposal of assets	(267,192)	(624,150)
Finance costs - Finance leases	319,944	-
Debt impairment	11,353,857	3,568,607
Movements in operating lease assets and accruals	195,111	122,625
Movements in provisions	6,393,674	24,847,616
Changes in working capital:		
Inventories	1,325,756	(3,956,596)
Trade and other receivables from exchange transactions	-	368,664
Consumer debtors	(22,690,190)	10,414,452
Prepayments	55,234,754	(55,234,754)
Trade and other payables from exchange transactions	6,926,494	55,500,835
VAT	24,675,703	(85,581,715)
Unspent conditional grants and receipts	1,853,594	(82,575,969)
	416,167,208	19,265,466
36. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Water		182,533,427
• Sanitation		6,278,935
• Roads		7,694,791
		196,507,153
Not yet contracted for and authorised by Council		
• Water		207,614,571
• Community Assets		4,000,000
• Sanitation		68,214,067
• Roads		8,993,209
		288,821,847

This committed expenditure relates to infrastructure and will be financed by available grants and subsidies, retained surpluses, existing cash resources, funds internally generated, etc.

Sekhukhune District Municipality

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37. Contingencies

TRADES AND PAYABLE ISSUES

The municipality is involved in a number of litigation processes relating to disputes with creditors who allege that the municipality has defaulted on payments for services or goods rendered. The claims against the municipality total an amount of R14,219,388.80.

The municipality's lawyers and management consider the likelihood of the actions against the municipality being successful as unlikely in cases representing a value of R 13,268,032.3. The cases for the balance of the total claims, R 801,158.73, are considered to give rise to possible obligations which will only be confirmed by the outcome of the litigation. The cases are expected to be resolved within the next two years. Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total litigations will be covered from the accumulated surplus.

There is no reimbursement from any third parties for potential obligations of the municipality.

LABOUR ISSUES

Litigation is in process against the municipality relating to disputes with an employee who alleges that the municipality has unfairly dismiss the employee from work and is seeking a settlement of R363,944.10. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The case should be resolved within the next year.

Should the actions be successful the municipality does not have insurance cover to cover litigations costs and claim. The total litigations will be covered from the accumulated surplus.

38. Related parties

Relationships

Acting Accounting Officer

Suppliers with key management personnel that is also board members of the controlled entity

MJ Ntshudisane

Abram Mashabela - Maximum Security and Mathomomayo Investment Holdings

Mantsitsi Maphutha - MPRN

Sekhukhune Development Agency (Pty) Ltd 5

Ntshudisane Construction CC

Controlled entities

Supplier with key management that is also key management in Sekhukhune District Municipality

Members of key management

MJ Ntshudisane

Related party transactions

Purchases from related parties

MPRN

Mathomomayo Investment Holdings

4,792,703

19,589,181

183,843

403,586

Rent paid to related parties

Ntshudisane Construction

Thaneka Consulting Projects

Maximum Security

87,247

218,911

594,660

714,990

14,382,274

2,199,845

Thaneka Consulting Projects and Ntshudisane Construction are leasing office space to the municipality. Lease agreements have been entered into with the municipality prior employment of Mrs MJ Ntshudisane to the municipality as Chief Operating Officer and Acting Municipal Manager. The Council has condoned the transactions since there is still a shortage of office space in the area.

The payments to MPRN, Maximum Security and Mathomomayo are for services rendered. Contracts have been concluded prior to the appointments of the related parties as board members of the agency.

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39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

40. Fruitless and wasteful expenditure

Opening balance	1,463,315	1,076,730
Movements	2,966,009	386,585
	4,429,324	1,463,315